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CFEP DRAFTING GROUP
ECONOMIC DEFENSE POLICY REVIEW

Staff Study No. 21
Draft of June 17, 1955

Economic Structure of the Communist Bloc

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Executive Secretary

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ECONOMIC DEFENSE POLICY REVIEW

Staff Study No. 21
Draft of June 17, 1955
Contributed by Defense

ECONOMIC STRUCTURE OF THE COMMUNIST BLOC

SUMMARY

The economy of the USSR has continued to grow at a high rate since World War II, but this growth rate is slackening. The USSR no longer receives certain gratuitous contributions to its economy that were present in the immediate post-war years. Nevertheless, its growth has been impressive and the 1960 goals to which its attention is addressed are very high. Soviet leaders have expressed concern over decreasing growth rates, unsatisfactory progress of agriculture, and the slowing growth of industrial productivity. Since it is completely controlled and dedicated to achieving maximum forced growth, the Soviet economy, in spite of its parallel drive for Bloc autarky, is peculiarly susceptible to the impact of outside forces. Among the forces that have had adverse post-war effect upon it have been:

- a. The Korean War.
- b. East-West Trade Controls.
- c. Agricultural stagnation in the USSR, and significant agricultural failures in the European Satellites.
- d. Temporary economic concessions to the population after the death of Stalin.
- e. Necessity, from the Soviet point of view, of sharp increases in defense expenditures.

It is tentatively estimated that the trend in Soviet defense expenditures is toward an increasing proportion of GNP, and that this is a matter of concern to Soviet leaders.

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The period 1950-54 saw a trend toward Bloc autarky, during which total Soviet trade more than doubled, Soviet trade with its European Satellites increased 2½ times, and three-quarters of Chinese trade was reoriented from the free world to the Soviet Bloc. 70% of Soviet-European Satellite trade is with the more industrialized Satellites, with the USSR receiving primarily the products of their industry. The terms of Soviet-European Satellite trade exchange are nearly always advantageous to the USSR. Reorientation of China's trade to the Bloc was accelerated by CHINCOM controls. Chinese import requirements have been burdensome both to the USSR and to the European Satellites, and have been a factor in Satellite plan failures. In spite of the trend to Bloc autarky, and the obscuring effect of trade controls, a parallel trend for higher absolute trade levels between the Bloc and the Free World exists, due to the Bloc's appetite for capital goods, the stagnation of its agricultural programs, and the reluctance of the USSR to slow its own rate of economic growth by diversion of resources to the Satellites, particularly to Communist China.

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I. Development of USSR economy since World War II.

Post-war developments in the economy of the USSR were to a degree forecast by the conduct of the Soviet Union during the latter stages of the war itself. Insistence on massive reparations, particularly from Germany, indicated that the Soviets were preoccupied with the restoration of their productive capacity as soon as possible. At the same time, an increasingly larger share of U. S. Lend-Lease to Russia was made up of production equipment and semi-finished industrial products, as opposed to military end-items. As Soviet forces advanced beyond their pre-war frontiers, the systematic looting of industry in the occupied territories began. In Germany, the USSR had secured the agreement of the United States, the United Kingdom, and later of France to this program of capital despoilment. Elsewhere it was pursued with the tacit initial approval of the Allies, as in Eastern Europe, or with bland disregard of their views, as in Manchuria and North Korea, where capital equipment to the value of about one billion dollars was removed to the USSR.

Coincident with this program, the USSR also pursued programs of full exploitation of prisoner labor, and of "sponging up" the advance of Western science in all fields. Not only Germans and Japanese POW's, but the POW's and politically "unreliable" elements of what were to become the European Satellites of the USSR, as well as those elements of its own population that had shown any degree of unreliability in wartime were ruthlessly worked at forced labor in Russia. Forced gains in technology were achieved by the wholesale exploitation, both within the occupied territories and by removals to Russia, of Western, particularly German, scientists and engineers; and by large-scale espionage which had flourished within the framework of wartime "cooperation".

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While Lend-Lease officially terminated as of the end of actual hostilities in World War II, in fact it continued thereafter for two years under another guise - UNRRA. The United States underwrote about 73% of UNRRA costs, and the Soviet Union and its European Satellites received close to 50% of the value of the goods purchased by UNRRA, to the value of about \$1,434,000,000.

Substantial accretions to the post-war Russian economy also came directly from certain nations identified as former enemies of the Soviet Union - Finland, East Germany, Rumania, Hungary, and Austria - in the form of reparations. In the case of Finland, the sum involved was a quarter of a billion dollars and was imposed unilaterally by the Russian peace treaty. In the cases of Rumania, and Hungary, the direct total was about _____ dollars, and was expressly sanctioned by multilateral peace treaties concluded in the period 1945-1947. In the case of Austria, the USSR is to receive \$320,000,000 in reparations over the next 6 to 10 years.

A final post-war accretion to the economy of the USSR was Soviet "ownership", outright or through the medium of joint stock companies, of economic enterprises in the "former enemy" category of nations. The degree of "milking" of these other economies varied from the outright ownership of all important industrial properties which appeared useful in East Germany, to the management and conversion to Soviet uses of former German* assets in Rumania, Bulgaria, Hungary, and in the Russian Zone of Austria. While apparently terminated in the other Satellites, this program continues, although diminished in East Germany, and made in Austria until the peace treaty is made effective.

*The Soviet interpretation of a "former German" asset was very broad, extending to companies whose directors had names of Germanic origin!

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The outline plan for post-war development of the economy of the USSR was contained in Stalin's speech of 9 February 1946, which announced a new Five-Year Plan to rehabilitate the country, restore and surpass pre-war production levels, meanwhile emphasizing scientific research. Future goals were set in general terms as a tripling of pre-World War II production, with an indicated target date of 1960. Specific production goals were outlined (millions of metric tons) as:

Pig Iron	- 50
Steel	- 60
Coal	- 500
POL	- 60

In vital categories, the USSR apparently reached pre-war production figures by the end of 1948, although rehabilitation continued in many fields through 1950. During this period, as well as up until the present, the emphasis in the economy of the USSR has been on a high rate of capital investment (expanding the production base), maintenance of high levels of military expenditure, and direction of the major share of capital investment to heavy industry and the production of its basic raw materials. There has recently been added a basic concern for expansion of agricultural production, and an expressed desire for more rapid increase in labor productivity.

Estimates* of Soviet production of certain important commodities are tabulated below: (Millions of metric tons, except copper and aluminum, thousands of metric tons, and electric power, billions of KWH).

* All Soviet production figures are necessarily estimates.

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	<u>1948</u>	<u>1950</u>	<u>1954</u>
Pig Iron	13.9	19.3	38.9
Crude Steel	18.0	26.3	39.7
Coal	207	260	345
POL	29.4	37.9	59.0
Copper	200	230	260
Aluminum	135	175	440
Grain	78	95	87
Cotton	1.7	2.9	3.6

During the same period, Soviet military expenditures are estimated to have increased as follows: (billions of 1948 rubles).

<u>1948</u>	<u>1950</u>	<u>1954</u>
92.1	113.3	147.2

These estimates include directly budgeted defense outlays, plus fairly plausible estimates for the security forces, military education and research, military installations outside the defense budget, and special weapons expenditures. They do not include expenditures for that portion of new plant and tooling in the industrial sector devoted to military end-item production, although over a period of years these costs are estimated to be amortized by the defense budget itself.

Notwithstanding the impressive economic progress of the Soviet Union during the post-war period, certain aspects of the economy have given concern to the Soviet leaders themselves:

a. Decreasing rates of economic growth (GNP). This phenomenon normally occurs in a maturing economy, but in the USSR is aggravated by such factors

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as retardation of agricultural production, very high levels of military expenditures, and the retention in use of obsolete and obsolescing production equipment and methods.

b. Unsatisfactory progress in the agricultural sector. This results in part from neglect of this sector in comparison with the industrial sector, from neglect of food production in comparison with production of industrial crops, but most of all from the rigidity of the Communist system itself, which rigorously controls the land and its products, with little regard for the tillers of the soil.

c. Slowing rates of increase in the productivity of industrial labor. Again, there is no isolated single factor involved. It is partly due to the fact that large, untapped pools of Soviet manpower no longer exist, whose simple diversion to production will produce large production increases with a minimum of capital investment. In part it results from the priority given to new plant construction, over modernization of existing plant. As Soviet industry ages, increasingly higher percentages of production come from obsolete or obsolescing units. In part it results from the planning rigidities of the Soviet system, which in addition to overcentralization, make for monthly and yearly output peaks under high cost conditions, to meet forced production norms. In part it results from a dearth of genuine incentives to the individual worker - low real wages, scarcities, forced savings, and progressively increased work norms.

The economy of the Soviet Union in fact operates continuously under imposed Controlled Materials, Controlled Man-power, and Controlled Financial Resources Plans. Since it is also an economy that is always maximally stressed for forced growth, it nevertheless lacks flexibility in coping with major planning failures or outside developments that may have major impact upon it.

Due to the Soviet fetish for security, it is difficult to document the fact, let alone the extent, that any given outside development may have in

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adversely affecting the economy of the USSR. Nevertheless, some generalizations are possible, supported by evidence, by logic, or by both:

a. The nature and duration of hostilities in Korea could not have been foreseen by the USSR. In terms of its impact on the Soviet economy it caused:

(1) Some depletion of reserve armaments stocks, hence a later requirement for rebuilding these stocks from production.

(2) Some commitment of current armaments production to the logistics pipeline terminating at the battlefield, hence necessity for larger-than-planned armaments production.

(3) A greater-than-foreseen requirement for equipping all Chinese Communist Armed Forces, in addition to supporting those in Korea. This was the apparent Chinese price of entry into and continued participation in the Korean War.

b. The trade controls program had specific economic impact on the USSR:

(1) It placed the burden of being the source of supply for Chinese Communist industrialization almost wholly on the rest of the Bloc, a burden which the USSR was only in part able to further pass on to the European Satellites.

(2) It loaded Soviet land transportation systems beyond the ton-mileage requirement that had been foreseen for the period.

(3) It further overloaded an already-inadequate Soviet Far Eastern merchant marine.

(4) It contributed to, and may in fact have caused, what have been at least "spot" Soviet POL shortages, especially in the Far East.

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(5) In accentuating European Satellite difficulties in fulfilling their own expansion plans, it was certainly an adverse factor in overall Bloc planning, and may even have necessitated diversion of Soviet resources planned for internal use.

g. The course of events in European Satellite agriculture was certainly not foreseen by Soviet planners. Taken as a whole, including what is now East Germany, this was formerly* a net grain-exporting area by more than 3,000,000 metric tons annually. Certain Satellites were also large exporters of animal products. It is reasonable to suppose that the Soviets assumed these agricultural surpluses would continue. For a variety of reasons, chief among which was the impact of various internal Communist control measures, further compounded by poor crop weather in the past two years, Satellite production of grain and animal products has dropped off drastically. Specific results are:

(1) By 1953-1954, the European Satellites had become a net grain-importing area, and the USSR had to export an estimated 2,500,000 metric tons of its own grain to these countries.

(2) Both these developments occurred in the face of a very unsatisfactory agricultural situation within the USSR, especially during 1953.

(3) The USSR had to buy, apparently for the Satellite account, large quantities of animal products from the Free World, especially during 1954.

(4) Probably as result of a combination of the agricultural situation in both the Satellites and in the USSR, the latter was apparently unable to spare its habitual quantity of grain for export, and resorted instead to increased exports of POL and gold to bring its accounts closer to balance.

* Pre-World War II; figures for 1937-1938.

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d. Estimated Soviet expenditures for defense remained at a relatively high level after World War II. From 1948 on, there was an apparent annual increase of about 10 billion rubles. 1953 expenditures were estimated as about 17 billion rubles over 1952; 1954 showed a slight increase over 1953; for 1955 there is apparently to be a marked increase over 1954. Whether or not these two significant increases (1953 and 1955) resulted from a Soviet reassessment of armaments programs from Korean War experience, from a reassessment based on observation of increased levels of U. S. defense expenditures, or from other factors is unimportant. What is important is that coming as they did in the middle and at the end of the Fifth Five-Year Plan, they were of necessity superimposed on its original framework, and inescapably resulted in major changes in resource allocation to all sectors of the economy.

The death of Stalin created problems of succession and control which had impact on the Soviet economy:

a. There were internal, early concessions to the population -- lower levels of forced loans, state-financed price reductions on agricultural commodities, and stock releases with price reductions of various other items sold at retail.

b. There were large planned increases in housing and light industry production levels, which were not actually achieved, and have now been scaled down.

c. There was a temporary change in the pattern of imports, with a greater proportion of such imports being consumers goods (including food). Some were for the Satellite account.

Incomplete costing of certain Soviet defense programs known to be in existence or estimated to be required from the Soviet point of view during the next five years leads to the following tentative conclusions:

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a. Larger amounts of capital investment than hitherto realized have in the immediate past been devoted to armaments production in the USSR.

b. Absolute Soviet defense expenditures have been taking an increasing proportion of Soviet GNP. Barring cut-backs in force-levels or programs, this trend will continue.

c. This factor, more than any other, accounts for present Soviet moves to "relax international tensions".

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II. Trends of Intra Bloc Trade Relationships Since World War II.

During the period 1950-54, the autarky of Communist Russia was in the process of being supplanted by an autarky of the Communist Bloc as a whole. USSR-European Satellite trade grew rapidly during this period, by 1954 to a figure that was estimated as $2\frac{1}{2}$ times the 1950 level. Another striking trend was the redirection of Communist China's foreign trade to the European Communist Bloc. During this period, the percentage distribution of this trade went from an estimated 26% with the Bloc, 74% non-Bloc; to 75% with the Bloc, 25% non-Bloc. Meanwhile estimated total Chinese foreign trade roughly doubled to an announced figure of about \$2.2 billion.

The estimated break-down of the total foreign trade of the USSR itself is as follows:

	<u>TOTAL</u>	<u>FREE WORLD</u>	<u>TOTAL BLOC</u>	<u>EUROPEAN SATELLITES</u>	<u>COMMUNIST CHINA</u>
1948	1,968	1,149	819	813	6
1949	2,399	896	1,503	1,473	30
1950	2,989	673	2,316	2,020	296
1951	3,875	777	3,098	2,126	972
1952	5,445	998	4,447	3,477	970
1953	6,207	880	5,327	3,975	1,352
1954	7,188	1,198	5,990	4,624	1,366

Foreign trade now occupies quantitatively a position in the economy of the USSR similar to its position in the economy of the U. S. — about 6% of respective GNP's.

It is estimated that about 70% of Soviet-Satellite trade is with East Germany, Czechoslovakia, and Poland. With these, the USSR in general exchanges food, industrial raw materials, and equipment for a broad range of precision equipment, machinery and transport equipment, and certain raw materials needed by the Soviet Union. From the other Satellites, the USSR obtains primarily food and raw materials in exchange for Soviet industrial and agricultural

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equipment and industrial raw materials. Hungary also exports transport and electrical equipment while importing light and heavy machinery.

USSR-European Satellite trade has increased much faster than the growth of the Satellite economies, from an estimated 5% of total gross national product to an estimated 10% ~~of GNP~~. There is evidence that the terms of this trade are nearly always advantageous to the USSR. The Soviet Union pays less than world prices for its imports, and receives more than world prices for its exports.

An estimated breakdown* of China's total foreign trade, 1950-1954, is as follows:

	<u>TOTAL</u>	<u>SOVIET BLOC</u>	<u>NON BLOC</u>
1950	1,082	282	800
1951	2,164	1,319	845
1952	1,780	1,280	500
1953	2,200	1,615	585
1954	2,200	1,650	550

In view of earlier trends in the trade orientation of the European Satellites, reorientation of Communist China's trade to the Bloc was a natural development. It was unquestionably accelerated, however, by the imposition and continuation of Western trade controls on China during the period. Within its trade with the Soviet Bloc, China's trade with the European Satellites, which had been negligible, quickly assumed and maintained substantial importance, varying between an estimated one quarter and one sixth of the total between 1951 and 1954.

The USSR exports to Communist China armaments, industrial and transport machinery and equipment, and POL. It receives in return largely foodstuffs, agricultural raw materials, nonferrous metals and ores. European Satellite exports to China are generally similar, but include also substantial amounts

* This table is only roughly compatible with the table on page 12, having been lifted ~~from~~ a different source.

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of chemicals. Satellite imports from China are similar to Soviet imports, but include also quantities of iron ore and pig iron.

There is evidence from a variety of collateral sources of Soviet concern during this period for diverting to the European Satellites a very large share of Chinese Communist trade requirements. It can be reasonably concluded that this increased the burden on European Satellite productive capacity, and was a factor in both:

- a. The general upward revision of Satellite capital investment plans, 1951-1952, and,
- b. The general economic imbalance in the Satellites, and their general failure to meet planned production goals in 1953 and 1954.

There is some evidence, moreover, that the terms of trade between the Chinese Communists and the European Satellites, all factors considered, were more favorable to the former than to the latter. There is little concrete evidence concerning the terms of trade between the USSR and Communist China. Such evidence as exists indicates that the terms of this trade were considerably less loaded in favor of the Soviet Union than the latter's trade with the European Satellites. Substantial long-term credits, estimated as mostly for armaments, up to a minimum of about \$500 million, were also granted China by the USSR during the period.

Notwithstanding the drive for Bloc autarky, there is an apparent long-term trend toward gradually increasing absolute levels of Bloc trade with the Free World. This trend has been masked to a considerable degree by the fact and variation in effectiveness of Western trade control measures, both COCOM and CHINCOM. It exists for a variety of reasons, among which are:

- a. The Bloc's insatiable appetite for capital goods.
- b. The obvious reluctance of the USSR to dilute or slacken its own capital investment programs by increased diversion of its own resources.

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This is evident in its economic relations with the European Satellites, and still more evident in Soviet Bloc relations with Communist China.

c. The general failure of Soviet Bloc agricultural programs to keep pace with the demands of their expanding industrial economies.

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III. Analysis of Structure of USSR Economy.

Industry

a. The emphasis of the Soviet economy is and has been upon the basic heavy industries, both by direction of investment and by distribution of labor.

b. Steel. The Soviet steel industry is characterized by relatively large producing units, most of which are widely separated (by U. S. standards) from supplies of ore, (2) coal, or (3) centers of consumption. The industry has always been heavily dependent on pig iron production as opposed to large-scale utilization of scrap. There are indications that in recent years expansion of pig iron production has lagged behind plan, creating a situation of partial dependence on scrap imports in order to achieve planned production levels of crude steel. Soviet position with regard to manganese and chrome is excellent and apparently satisfactory with regard to nickel. There are indications of a marginal position in molybdenum and a known dependence on outside sources for cobalt, which the USSR alleviates by measures of materials substitution and careful husbanding of available supplies.

c. Non-ferrous metals. Production of primary and fabricated aluminum has apparently expanded nearly as planned, thanks to the availability of Hungarian bauxite. The "ceiling" in expansion appears to have been the achieved rate of expansion of electric power generation, which appears to have been somewhat less than hoped for. The Soviet position in lead, and

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zinc appears to be one of marginal self-sufficiency. Reserves of high-grade ores have been decreasingly available, and utilization of lower grade ores has been slow. This is especially true of copper, to secure which from the Free World the USSR has increasingly resorted to almost any expedient. The USSR is also tin-deficient.

d. Energy. Soviet energy production has been generally sufficient for its industrial expansion. Coal continues to be by far the major industrial fuel, including use in electric power generation. There are indications that coal production has lagged behind plan. While electric power generation has shown marked increase, certain grandiose hydro-electric projects have been "deferred." There are also indications that shortages of turbines and high output generating equipment have been a brake on even more ambitious plans for increase in power generation capacity. POL production has expanded at greater than planned rates. The "second Baku" east of the URALS supplies increasing percentages of Soviet crude production. There is nevertheless evidence:

1. That Soviet POL requirements have grown more rapidly than apparently forecast, giving rise to at least spot shortages stemming from transportation and distribution difficulties notably in the Soviet Far East.

2. That Soviet planners now realize that insufficient capital, manpower, and effort has been devoted to exploitation of known POL reserves and to increasing production.

e. Heavy Industry. Soviet metal-working and machinery industries have steadily expanded production. An undeterminable share of this expansion has

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gone to increasing production of complex armaments. Such expansion costs are concealed within the capital investment budget of heavy industry and only become apparent one or two years later when a rise in the defense budget reflects the production phase of the armaments themselves. Most of the aluminum, a high percentage of the copper, and nearly all the "quality" grade of rolled steel are consumed by heavy industry in the manufacture of machinery and of munitions. Those Soviet plants not now engaged in munitions manufacture, but which would shift over in war or lesser emergency are maintained in a high state of readiness. In some instances parallel but inactive production lines exist. In any case, the mobilization reserve not only of tools but also of semi-finished materials for several months of production-line input is on hand.

f. Chemicals. Production of basic chemicals has grown rapidly in the USSR and is apparently sufficient for the needs of industry. There are indications, however, of failure to meet planned goals in output of mineral fertilizers, synthetic rubber, and calcined soda. The Soviet chemicals industry lags the West in the development and production of the more complex chemical compounds, particularly in the field of petro-chemicals. In view of Soviet agricultural plans and the requirements of the Satellites, including Communist China, there is basis for a belief that the Soviet chemical industry will have difficulty over the next five years in providing necessary amounts of fertilizer, particularly high-nitrogen concentrates, necessitating supplemental supplies from Western sources.

g. Construction. This industry has expanded rapidly post-war, but chronic difficulties continue:

1. By U. S. standards the degree of mechanization is still primitive,

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and the output of heavy machinery allocated to the industry insufficient to modernize it for some years to come.

2. Cement and brick production have failed to keep pace with plan requirements.

3. Due to diversion to other uses, there are continuing shortages of structural steel.

Distribution:

There are various estimates as to the broad allocation of resources pattern of the USSR. One such estimate (for 1954) is (billions of U. S. dollars):

Consumption	\$ 52	40%
Investment	42	33%
Defense	22	17%
Administration	13	10%
Total	\$129	100%

Another such estimate is:

Consumption	\$ 54	42%
Investment	37	28%
Defense	24	18%
Administration	15	12%
Total	\$130	100%

In any case, these estimates contrast significantly with an estimate of the allocation of U. S. GNP for the same year:

Consumption	\$250	70%
Investment	53	15%
Defense	43	12%
Administration	11	3%
Total	\$357	100%

Generalizing on the basis of these and other figures:

a. The USSR devotes higher percentages of GNP to investment, defense,

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and administration than does the U. S. and a much lower percentage to consumption.

b. The producer goods sector of the USSR economy aggregates about one-fourth that of the U. S.; the consumer goods sector only one-tenth.

c. In terms of percentages of U. S. figures, other sectors of the Soviet economy contribute as follows to GNP:

Agriculture -	60% of the U. S. absolute figure
Construction -	40% " " " " " "
Transportation -	68%
Trade -	23%
Services -	33%

Generalizing without statistics, the economy of the USSR heavily emphasizes industrial investment, particularly in heavy industry and defense at the expense of consumption. Productivity of agriculture is low, internal trade is undeveloped, and the services sector is small. Transportation costs are high because of vast distances and heavy reliance on land transportation.

Financial - All Soviet banking and credit arrangements, both internal and external are reflections of its completely planned economy. Internally, the state banking system clears all inter-enterprise financial transactions, is the depository of their funds, and approves their disbursements. Externally, it finances and clears all Soviet export and import transactions.

The USSR's budget is an integral part of the general economic and financial plans. Most of Soviet capital investment is made through the budget. Most of the state revenue is derived from a sales tax on consumers goods; other portions come from profits taxes on state enterprises, certain direct taxes, and forced loans.

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A portion of Soviet economic expansion comes from "profits" generated by the enterprises themselves; another portion is generated from loans made by the banking system out of the deposits of individuals.

The entire Soviet economic structure is directed by its centralized organization for directing the allocation, production, and distribution of resources. Supply and demand are roughly coordinated by equating physical production with estimated spendable income through the medium of artificially determined prices. Consumer demand only faintly influences production.

Trade.

a. Soviet foreign trade is a complete government monopoly. Moreover, "normal trade" in the Western sense, an exchange freely entered into for the mutual advantage of both parties, is completely foreign to Communist thought. The Communist ideal is complete autarky, non-dependence on foreign sources or markets. As already noted, Russian autarky is in the process of replacement by Bloc autarky. Nevertheless, even the USSR finds it necessary to trade with the non-Communist world. The Soviet Union exports in order to earn necessary foreign exchange; or (as of late), in certain backward countries, to facilitate political penetration.

b. The fact that the USSR exports a given commodity does not necessarily indicate that it is surplus to its needs. It is rather that this commodity has been chosen as one that for one reason or another can most easily be spared from the Soviet economy in order to earn needed foreign exchange. Manganese and chromite, for instance, are abundant and can apparently readily

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be mined in quantities beyond current Russian demand. Soviet fur resources are unique. Production and consumption of grain are so closely regulated that artificial surpluses have been readily generated in the past. Timber is a state monopoly, and its production, as is also true of much of the Soviet mining industry, has been largely a matter of the application of forced labor. In recent years, oil and gold have also appeared in quantity in Soviet exports simply because the USSR has found it necessary to employ them as media to gain foreign exchange.

c. Soviet imports on the other hand are directed toward specific purposes, including:

1. Augmenting directly the capital base of the Soviet economy - machine tools, heavy industrial equipment, mining, oil-drilling and construction equipment, etc.
2. Enhancing Soviet technology, enabling it to further narrow the gap between it and the West - prototype industrial, mechanical, electrical, electronic, and instrumentation equipment of all types.
3. Alleviating Soviet shortages - natural rubber, cobalt, tin, copper, steel scrap, etc.
4. Compensating for Bloc planning or production failures - purchases of agricultural products, mainly for the European Satellite account, during 1953-54.
5. Achieving Communist political goals even with some economic sacrifice - dumping of miscellaneous manufactured products in South

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American, African, and Asian countries at less than world prices.

Agriculture - As previously stated, agriculture in the USSR has seriously stagnated. Production of food crops in recent years has been little above pre-World War II figures and per capita supplies of food little if any improved over Czarist days. Soviet leaders have become seriously concerned to the extent that for the past two years considerable amounts of labor and capital have been diverted to the agricultural sector. The specific programs in progress include:

- a. The "new lands program," which is to add millions of acres of cultivated land, mostly in central Asia.
- b. The corn program, which is to be the basis for expanded meat and animal products programs.
- c. Personnel recruitment programs
- d. Diversion of capital for machinery, construction, and fertilizer for agricultural use.

The goals for this program are a roughly 100 percent increase in agricultural production in five years. In view of unfavorable climatic conditions for the selected crops, the extent to which marginal land is to be utilized, competition for available resources, and past history of agricultural failures under the Soviet control system, much more modest increases, in the neighborhood of twenty per cent to thirty per cent are likely with the possibility of recurring crop disasters under frequent conditions of unfavorable weather. (Killing frosts or drought during the growing season.)

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Transportation - The USSR is extremely dependent on rail transportation due to the lack of a comprehensive road system and the seasonal availability of water transport.

a. Railroads. Soviet railroads are and have been overloaded by Western standards. There is evidence that they are overloaded even by Soviet standards, for the ton-miles of freight estimated to be generated by 1955 were in fact carried by 1953. Long distances and wide separation of natural resources, centers of production, and centers of population have resulted in much long-haul traffic. Soviet maintenance and construction methods are sub-standard, modern signalling equipment is in short supply, and much of the locomotive and rolling stock parts are obsolete. Nevertheless, the system which has been under-maintained and insufficiently supplied with capital investment for thirty years continues to operate under intensive pressure.

b. Highways. This means of transport accounts for only 4 per cent of freight movement in the USSR. Traffic density is appreciable only around the larger cities due to official emphasis on other means and the lack of a nation-wide road net. One result is aggravation of the agricultural problem; the rural districts of the USSR are so ill-served with roads and truck transport that the difference between field and barn yields of many agricultural crops is estimated to be as high as one-third.

c. Inland Waterways. The USSR's inland waterways handle about 10 per cent of the ton-miles of freight. They relieve the traffic burden on the railroads and compensate in some measure for other inadequate modes

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of transport. Among the important natural waterways are the Volga, Kama, and Dnieper Rivers, the tributaries of the Danube, the rivers flowing northward to the Arctic, and in the Far East, the Sungari River. The Leningrad-White Sea canal system, the Leningrad-Moscow-Volga system, and the Volga-Don canal are important man made waterways. Climate halts navigation for from two-and-one-half to nine months of the year, and low water shortens navigable routes at other times.

d. Merchant Marines. The Soviet Merchant fleet as of June, 1954, had 637 vessels totaling 2,121,343 gross tons and 2,830,334 deadweight tons. Its size has risen since 1939 from eleventh to fourth place in world tonnage. But the bulk of this fleet is old, slow, and obsolete, the backbone of its long-haul capacity resting on a number of United States lend-lease Liberty ships and Hog Islanders, which the Soviets have consistently refused to return. Purchases have been made abroad, extensive repairs in Western yards contracted for (largely time-consuming overhaul) and large amounts (over 1,500,000 gross registered tons per year) of Western shipping is continually under charter to the Soviet Bloc. Thus, no merchant ships, other than a few tankers which have obvious Naval utility, have had to be laid down in Soviet yards. As a result, the yards have been free for all-out Naval construction, thus permitting the Soviet fleet to gain second place in world Naval power.

Armaments.- Soviet armament production is characterized by the development and large-scale production of a limited number of types of weapons. These are made in large plants which are generally more self-contained than those of the West.

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At the end of World War II, the USSR did not reconvert its armaments industry either as rapidly or as completely as did the West. Many Soviet plants which were converted to munitions production during the war have continued to turn out military end-items, though generally at only a fraction of their former rates, and care has been taken to enable reconverted plants to return to military production in a relatively short time. New factories constructed primarily for the production of equipment for peaceful purposes have in some cases been designed for easy conversion to armaments manufacture. The Soviet armament industry therefore has the capability of rapidly increasing output in an emergency.

Soviet production has been running at such a high rate that, even allowing for reequipment programs, the USSR has been able to place large quantities of munitions into reserve. Nevertheless, current production of armaments is considerably below capacity and absorbs a relatively small proportion of basic materials. For example, it is estimated that since 1947 from 10 to 15 per cent of the annual Soviet output of steel has gone directly into military end-items. Current estimated Soviet crude steel production of about 44,000,000 tons per year can be compared with the 18,000,000 tons with which the USSR carried out its immediate pre-World War II rearmament and with an average annual wartime supply of about 12,000,000 tons (including 600,000 tons of lend-lease aid). Germany produced only 22,000,000 tons in 1939 and fought the war on an average annual production of 20,000,000 tons.

Technology - Development of technology in the Soviet Union as in the United States involves heavy economic costs in research and production. The

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allocation of resources is on a strict priority basis. Nevertheless, where basic technological need has arisen, the USSR has been able to fill it.

At the highest level of priority, such as in the field of weapons development, the Soviets have demonstrated impressive scientific and technical skill. At the somewhat lower priority level of laboratory technology, such as in coal mining, in oil drilling and refining, in ferrous metallurgy, in the building of electric generators, etc., the task is mainly of adapting Western methods. Consequently, these industries usually lag behind Western developments by two or three years and continue to keep older plants in operation. In such low priority industries as textiles or the making of boots and shoes, technology has remained generally at a low level. Even where new factories are built they usually use a technology well behind developments in Western economies.

Economic cost of building the necessary production equipment and the shortage of trained production personnel are still limiting factors in the expansion of Soviet industrial technology.

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